MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2016/2017

BEI2084 – INTERNATIONAL ECONOMICS

(All Section/Group)

21 OCTOBER 2016
9.00 a.m. - 11.00 a.m.
(2 Hours)

INSTRUCTION TO STUDENT

1. This question paper consists of **THREE (3)** pages including cover page.
2. Answer **ALL** questions in the answer booklet provided.
3. Total marks 100. The marks distribution for each question is given.

QUESTION 1

(a) Australia is land-abundant; India is labour-abundant. Wheat is more land-intensive relative to textiles. Graphically demonstrate the pre- and post-trade equilibria for these two countries. Find and label the trade triangles for each country. Which factors gain and which factors lose when trade arises between these two countries? Explain carefully. (15 marks)

(b) Discuss **FOUR (4)** factors that lead to the supply for protectionism. (10 marks)

(Total: 25 marks)

QUESTION 2

(a) Distinguish between 'trade creation effect' and 'trade diversion effect' within a custom union. (6 marks)

(b) Discuss the **FOUR (4)** lists of trade liberalisation among the member countries of the ASEAN free trade area (AFTA). (12 marks)

(c) Explain how a country's balance of payment surplus could lead to an accumulation of official reserve assets. (7 marks)

(Total: 25 marks)

QUESTION 3

(a) If the spot rate of the pound is RM1.70 and the 3-month forward rate is RM1.75:

(i) How a Malaysia importer who has to pay 20,000 pound in 3 months hedge his foreign-exchange risk? (5 marks)

(ii) What will occur if the Malaysia importer does not hedge and the spot rate of the pound in 3 months is RM1.80? (5 marks)

(b) If U.S. visitors to Mexico can buy more goods in Mexico than they can in the United States when they convert their dollars to pesos, is the dollar undervalued or overvalued? Explain. (6 marks)

(c) Suppose that the three-month forward rate on the euro is \$1.43 but you think that the spot price in three months will be \$1.39. Using only the forward market, what actions should you take and how much profit per euro do you expect to make? (9 marks)

(Total: 25 marks)

Continued...

QUESTION 4

(a) Some countries have fixed exchange rate systems instead of flexible exchange rate systems. How does the fixed exchange rate system limit their ability to exercise monetary policy? (15 marks)

(b) Using the elasticity approach, explain how the devaluation of a domestic currency can affect the balance of trade. Discuss your answer based on the Marshall-Lerner condition. (10 marks)

(Total: 25 marks)

End of Page